

1 **STATE OF RHODE ISLAND**
2 **AND PROVIDENCE PLANTATIONS**

3
4 **OFFICE OF THE HEALTH INSURANCE COMMISSIONER**
5

6 IN RE: BLUE CROSS & BLUE SHIELD OF :
7 RHODE ISLAND CLASS DIR :
8 NOVEMBER 15, 2007 :

9 **PRE-FILED DIRECT TESTIMONY OF**
10 **THOMAS A. BOYD**

11 Q. Please state your name, title and area of responsibility.

12 A. Thomas A. Boyd, Executive Vice President (“EVP”) of Blue Cross & Blue
13 Shield of Rhode Island (“Blue Cross”). I am one of two EVPs at Blue Cross, and I report
14 directly to the President and Chief Executive Officer. My responsibilities involve
15 management of all aspects of the corporation related to financial services, strategic planning
16 services, operations, human resources, security and external services which includes
17 community relations and customer service. I have been an EVP of Blue Cross since January
18 of 2005. Prior to that, I had been employed for 18 years with Blue Cross with increasing
19 responsibilities, principally in the underwriting area. Prior to being employed with Blue
20 Cross, I was employed by Blue Cross & Blue Shield of New Hampshire. I am familiar with
21 the internal operations of Blue Cross, and with the presentations made to the Blue Cross
22 Board of Directors (“Directors”) and the Finance Committee related to this rate filing. I am
23 the designated operational and policy witness for Blue Cross for this rate filing.

24 Q. Would you please generally describe who the subscribers are for Class DIR?

25 A. Yes. Class DIR subscribers are individuals and families who reside in Rhode
26 Island and who are neither eligible for employer based coverage, nor state or federal

1 programs. Self-employed individuals are eligible for coverage as a Class DIR subscriber or as
2 a small employer.

3 Q. What is the rate structure for Direct Pay subscribers?

4 A. For Direct Pay, we have two pricing structures. They are:

- 5 • **Basic Rates (Pool I)** which is the regular Blue Cross DIR program with set or
6 community, individual and family rates.
- 7 • **Preferred Rates (Pool II)** is a Blue Cross DIR program rated by age and
8 gender and which utilizes a health statement.

9 We believe it is critical to affordability to continue these pricing structures. It is
10 important to have Preferred Rates (Pool II) in order to continue to encourage healthy
11 individuals to purchase Direct Pay. This is crucial to keeping rates more affordable for all
12 Direct Pay subscribers.

13 Q. Please describe the goal behind this rate structure.

14 A. Blue Cross alone insures this segment of Rhode Islanders. Blue Cross has set
15 two goals for itself in Direct Pay: (1) to make coverage “available” to all Rhode Islanders; and
16 (2) to make the coverage as “affordable” as possible—while recognizing that in the long run
17 this is not an issue which Blue Cross alone can resolve. The use of the different pools with a
18 health screening and application process for Pool II assists in attracting younger and healthier
19 subscribers, thereby benefiting all in Direct Pay, including Pool I subscribers. Pool II became
20 a vehicle which helped slow down the cost spiral that had been experienced by this class. It
21 has helped address problems associated with the health characteristics, age, and relatively
22 high claims expenditures for Class DIR by injecting the potential for better health experience
23 in the future and to rejuvenate that class. By continuing to seek to better align the rates of the

1 pools as described in Mr. Lynch's Pre-Filed Testimony, Blue Cross believes that Direct Pay
2 will continue to attract more healthy subscribers for the benefit of all subscribers.

3 Q. What are the products currently available to Class DIR subscribers?

4 A. HealthMate Coast-to-Coast Direct Plan 400/800 ("HealthMate Direct 400")
5 offers comprehensive coverage for medical care and prescription drugs. HealthMate Direct
6 400 has a \$20 copay for a visit to a primary care physician and a \$40 copay for a specialist
7 visit. There is a \$75 urgent care copay and a \$200 emergency room copay. These copay levels
8 are designed to incent members to obtain services at the least costly, most appropriate setting.
9 For all other in-network services, a \$400 per member/\$800 per family deductible is applied,
10 with a 10% member paid coinsurance after the deductible. There is an in-network out-of-
11 pocket maximum of \$2500 per member/\$5000 per family. Prescription drug coverage is
12 provided at participating pharmacies with a member paid coinsurance of 20% generic/25%
13 brand/and 50% non-preferred brand. Pharmacy coverage does not go toward meeting the
14 deductible. In general, members have a greater expense (i.e., higher deductibles and
15 coinsurance) for services rendered out-of-network. We have seen little usage of out-of-
16 network providers given the very broad network Blue Cross has in Rhode Island and through
17 the Blue Card® PPO national network. The Blue Card® network administered under the
18 auspices of the national Blue Cross Blue Shield Association provides a comprehensive
19 network for our Class DIR members available throughout the country.

20 HealthMate Coast-to-Coast Direct Plan 2000/4000 ("HealthMate Direct 2000")
21 coverage is similar to HealthMate Direct 400. The only differences are in the deductible,
22 coinsurance percentages and out of pocket maximums. The HealthMate Direct 2000
23 deductible is \$2000 per member/\$4000 per family, and the member paid coinsurance is 20%

1 for in-network benefits up to a maximum of \$3000 per member/\$6000 per family per calendar
2 year.

3 The HealthMate for HSA Direct Plan 3000/6000 (“HealthMate for HSA 3000”) and
4 HealthMate for HSA Direct Plan 5000/10000 (“HealthMate for HSA 5000”) products also
5 provide comprehensive coverage for medical care and prescription drugs. These products
6 have deductibles of \$3000 per member/\$6000 per family and \$5000 per member/\$10000 per
7 family, respectively. The deductibles apply to all covered services except for certain
8 preventive services. The following selected preventive services do not apply to the deductible
9 and are covered at 100% in-network: Adult and pediatric well visits and immunizations, PAP
10 smears, screening mammography and prostate screening. Prescription drug costs will count
11 toward meeting the deductible. After satisfaction of a member’s deductible, in-network
12 benefits are paid at 100% for all covered services. As in the case of the other Class DIR
13 products, members have greater out-of-pocket costs (i.e., a separate deductible and
14 coinsurance) for services rendered out-of-network. And like our HealthMate Direct plans we
15 have seen little usage of out-of-network providers by HealthMate for HSA members given the
16 very broad network Blue Cross has in Rhode Island and through the Blue Card® PPO
17 national network which also provides a comprehensive network for our HealthMate for HSA
18 members available throughout the country.

19 The HealthMate for HSA 3000 and HealthMate for HSA 5000 products are designed
20 to be HSA qualified high deductible health plans (HDHPs) under federal law. These plans
21 permit subscribers to open Health Savings Accounts and set aside tax deductible dollars to
22 fund eligible health care expenses. While these two plans are designed to be HSA qualified
23 HDHPs, the subscriber need not establish and fund an HSA account in order to purchase

1 HealthMate for HSA 3000 or 5000. In those circumstances, these plans would effectively be
2 higher deductible plan options, without the tax benefits for those subscribers who elect not to
3 fund an HSA.

4 Q. Are detailed proposed plan descriptions available for the four Class DIR
5 products you have described?

6 A. Yes. Contemporaneous with this rate filing, Blue Cross has filed with the
7 Office of the Health Insurance Commissioner (OHIC) proposed revisions to the contract
8 forms for each of the four products described above. These proposed forms provide detailed
9 descriptions of the benefits and other terms of the subscriber agreements.

10 Q. Generally what are the changes being proposed to the plans effective April 1,
11 2008?

12 A. Effective April 1, 2008 for both HealthMate Direct 400 and HealthMate Direct
13 2000 we are implementing a specialty pharmacy network with a \$75 co-payment for specialty
14 drugs. "Specialty drugs" are currently used by less than one percent of the patient population
15 to treat chronic or long-term diseases that have little or no alternative therapies. The challenge
16 for the healthcare industry, now and in the immediate future, is how to manage the usage of
17 these drugs to realize treatment potential at a cost that ensures patient-appropriate access.
18 Blue Cross will begin to direct specialty drug volume through a limited distribution network.
19 Specialty pharmacies provide cost savings as well as enhanced clinical management of the
20 patient. Specialty drugs are best identified by their features. For details about these features
21 see the Pre-Filed Testimony of Augustine Manocchia, MD.

22 Currently there are some specialty drugs covered under the medical benefit. Effective
23 April 1, 2008, many of these drugs will no longer be covered as a medical benefit. All

1 specialty drugs will be covered under the specialty pharmacy benefit. Members and/or their
2 providers will need to obtain these drugs from participating specialty pharmacies.

3 Q. Will Blue Cross be offering a Wellness Health Benefit Plan as required by Rhode
4 Island General Laws §27-18.5-9?

5 A. Yes. Blue Cross is launching a wellness health benefit program on HealthMate Direct
6 2000. With this program, HealthMate Direct 2000 will be designated as a Wellness Health Benefit
7 Plan effective April 1, 2008. Subscribers enrolled will have the opportunity to receive a reward of
8 10% of their annual premiums if they are compliant with certain wellness requirements. This program
9 adopts the wellness requirements of the Healthpact plans currently available in the Small Group
10 market.

11 • To engage in the program, members must complete the following Engagement Requirements
12 as appropriate:

- 13 • Designate a primary care physician;
- 14 • Complete a personal health assessment (age 18 and over);
- 15 • Pledge to either remain at a healthy weight or participate in weight
16 management programs if morbidly obese;
- 17 • Pledge to either remain smoke free or participate in a smoking cessation
18 program; and
- 19 • Pledge to participate in disease and case management programs if applicable.

20 • Within 8 months they must demonstrate their participation by:

- 21 • Submitting the annual PCP checklist (age 12 and over);
- 22 • Submitting the annual self-reporting form (age 18 and over); and
- 23 • Participating in our disease and case management programs if they have been
24 identified as someone who would benefit from our programs.

25 When a member is ready to commit to engaging in this program they would do so by

26 submitting the Engagement Requirements. Then they have 8 months to demonstrate their

1 participation by completing the second set of requirements. The reward will be issued one
2 year from when the member engaged in the process.

3 Q. How will this program be marketed to both prospective and existing members?

4 A. Upon receiving the final decision from the Office of the Health Insurance
5 Commissioner on this rate filing, Blue Cross will finalize updates to all marketing and
6 member materials. All materials will designate HealthMate Direct 2000 as a Wellness Health
7 Benefit Plan and provide an overview of the wellness reward program.

8 Blue Cross will launch this program with a special enrollment selection period to
9 allow existing members of HealthMate Direct 400, HealthMate for HSA 3000 and 5000 the
10 opportunity to select HealthMate Direct 2000. This special enrollment selection period will
11 provide members 30 days to select this plan. All subscribers will receive a mailing
12 announcing the launch of this program which will include details about the program and the
13 enrollment selection period. Once enrollment settles HealthMate Direct 2000 subscribers will
14 be issued a detailed mailing including their subscriber agreement as well as the reward
15 program requirements and participation instructions.

16 Prospective members will be informed about this program through our *Enrollment Kit*
17 and marketing materials which will designate the plan as a Wellness Health Benefit Plan and
18 provide an overview of the reward program. Those interested in this program will apply for
19 HealthMate Direct 2000. Once enrolled a welcome kit with more detailed information about
20 the reward requirements will be issued. This information will also be available on
21 BCBSRI.com.

22 Q. Are you implementing changes on the HealthMate for HSA 3000 and 5000
23 products?

1 A. At this time we are not making any benefit or procedural changes to these
2 products. They have been on the market for less than two years and Blue Cross believes that
3 they are meeting the needs of the market. We will continue to monitor the market and, if
4 needed, propose benefit changes in the future.

5 Q. What does Blue Cross do to assist members who may be interested in opening
6 an HSA?

7 A. To assist those members who may be interested in opening an HSA, we extend
8 the convenience of our arrangement with Wells Fargo Health Benefit Services (“Wells
9 Fargo”). With more than 27 million customers, Wells Fargo is one of the largest, strongest
10 and highly regarded financial services companies in the nation. Blue Cross members get
11 competitive rates for the administration of HSAs through Wells Fargo. In 2008, Wells Fargo
12 is planning to change their HSA offerings to include an FDIC insured interest bearing cash
13 account in addition to the investment options currently available. On October 1, 2007, Blue
14 Cross began offering members another option in HSA administrators, Blue Healthcare Bank.
15 Blue Healthcare Bank is an independent licensee of the Blue Cross Blue Shield Association
16 and is a federally-insured savings bank. It is wholly owned by 33 independent Blue Cross
17 Blue Shield plans, including Blue Cross & Blue Shield of Rhode Island, and provides
18 exclusive support to participating Blues companies and their members enrolled in health-
19 related consumer spending accounts. With an HSA, Blue Healthcare Bank offers a debit card
20 product, internet banking services and investment options. Additionally, an FDIC insured
21 savings account option is available. Opening an HSA is not required with enrollment in
22 HealthMate for HSA Direct. Members still have the option to choose to open an HSA at any
23 qualified financial institution.

1 Q. Were any of the costs of these relationships charged directly or indirectly to
2 Class DIR?

3 A. Class DIR has not been charged with any of these costs and the administrative
4 expense component of this filing does not include any expense associated with Wells Fargo or
5 Blue Healthcare Bank.

6 Q. Will any of the proceeds received by Blue Cross from this banking relationship
7 with Blue Healthcare Bank be applied as an offset to Class DIR Expenses?

8 A. Blue Cross does not expect any proceeds from this relationship for at least five
9 years.

10 Q. Please describe how members are informed of these HSA options?

11 A. Our *Enrollment Kit* explains to prospective members that HealthMate for HSA
12 Direct is a qualified HDHP that meet the requirements of the Internal Revenue Service (IRS);
13 therefore, they have the option of opening an HSA at a qualified financial institution of their
14 choice. In August, we updated our *Enrollment Kit* to include the option of Blue Healthcare
15 Bank in addition to Wells Fargo or the financial institute of their choice. This information is
16 also available on BCBSRI.com. Once enrolled in the HealthMate for HSA Direct plan
17 members are reminded of their options in the welcome letter which is issued along with their
18 subscriber agreement. We announced to our existing members that beginning October 1, 2007
19 they had another option in HSA administrators in the fall version *Choices* magazine. In
20 addition in October, HealthMate for HSA Direct members were issued a letter announcing
21 Blue Healthcare Bank as another available option. Regardless of our arrangements with Wells
22 Fargo and Blue Healthcare Bank, members are always informed that they may choose to open
23 an HSA at any qualified financial institution.

1 Q. What are the monthly fees for these HSAs?

2 A. Currently, the monthly fee for an HSA through Wells Fargo is \$3.75. The
3 monthly maintenance fee for an FDIC insured HSA through Blue Healthcare Bank is
4 currently \$3.00, which is waived if the average daily balance in the HSA is over \$2,000.

5 Q. What is the availability of Class DIR to the public?

6 A. Blue Cross and its Board of Directors have taken pride in the fact the Direct
7 Pay program has been offered to anyone who wants it and that, because of Blue Cross, there is
8 no one who is “uninsurable” in the State of Rhode Island from an availability perspective.
9 There are several ways to qualify for coverage. The most common way is through the Health
10 Insurance Portability and Accountability Act (“HIPAA”). Through HIPAA, coverage is
11 guaranteed for our Pool I Basic rate. Eligible individuals and families who have had
12 creditable coverage that ended less than 63 days prior and was in force for 12 continuous
13 months or was in force for 18 months with no breaks of more than 63 days. The Pool II plans
14 are available to any eligible individual or family who can meet our medical underwriting
15 guidelines throughout the year. Finally, Blue Cross also offers guaranteed coverage during
16 open enrollment.

17 In 2004, legislation passed which mandated that Blue Cross conduct an open
18 enrollment annually in the Direct Pay market for Pool I. Notwithstanding that there had been
19 no such prior legislative requirement, Blue Cross was the insurer of last resort for individuals
20 in Rhode Island and traditionally had an annual open enrollment in Direct Pay. Over the past
21 several years, no other carrier in Rhode Island has offered comprehensive healthcare coverage
22 to individuals, presumably because they have seen it as a highly regulated, unprofitable area.
23 At this time, Blue Cross alone provides options to individuals in this State for their health care

1 coverage. The Pool II plans are available to any eligible individual or family who meets our
2 medical underwriting guidelines throughout the year.

3 Q. Has Blue Cross recently conducted an open enrollment?

4 A. Yes. The last open enrollment was held between August 15, 2007 and
5 September 15, 2007 for an October 1, 2007 effective date. Open enrollment was advertised on
6 BCBSRI.com as well as in the Providence Journal on August 8th and August 15th 2007 and
7 during the weeks of August 20th and 27th 2007 in the following Rhode Island Newspaper
8 Group (RING) newspapers:

- 9 • Barrington Times on August 22nd and August 29th 2007
- 10 • Bristol Phoenix on August 23rd and August 30th 2007
- 11 • Cranston Herald on August 23rd and August 30th 2007
- 12 • Johnston Sun Rise on August 23rd and August 30th 2007
- 13 • Valley Breeze (Cumberland/Lincoln Edition) on August 23rd and August 30th 2007
- 14 • East Providence Post on August 23rd and August 30th 2007
- 15 • Newport This Week on August 24th and August 31st 2007
- 16 • N. Providence Breeze on August 23rd and August 30th 2007
- 17 • North East Independent on August 23rd and August 30th 2007
- 18 • Valley Breeze (N. Smithfield, Blackstone, Woonsocket Editions) on August 23rd
19 and August 30th 2007
- 20 • Valley Breeze and Observer on August 23rd and August 30th 2007
- 21 • Sakonnet Times on August 23rd and August 30th 2007
- 22 • Seekonk Star August 24th and August 31st 2007
- 23 • Somerset Spectator on August 22nd and August 29th 2007
- 24 • South County Independent on August 23rd and August 30th 2007
- 25 • Swansea News on August 23rd and August 30th 2007
- 26 • Warren Times Gazette on August 22nd and August 29th 2007
- 27 • Warwick Beacon on August 23rd and August 30th 2007
- 28 • Westport Shorelines on August 23rd and August 30th 2007

29
30 In addition, individuals who were not eligible to join throughout the year were sent a
31 postcard reminding them about open enrollment. During open enrollment Blue Cross held
32 four community sales meetings. Invitations to these meetings were included in each
33 *Enrollment Kit* issued between August 6th and September 11th. These meetings were free and
34 open to all Rhode Islanders. During these meetings sales representatives presented an

1 overview of our health plans, our dental direct plan and programs to save money on
2 premiums. Sales representatives were also available to answer questions from current and
3 prospective members on a one on one basis. Approximately 40 prospective members attended
4 these meetings.

5 As a result of this most recently completed open enrollment approximately 645 new
6 applications were received with 124 for Basic Rates (Pool I) and 521 for Preferred Rates
7 (Pool II). Subscribers who pass the health screen can enroll at any time during the year into
8 Preferred Rates (Pool II).

9 Over the past several years, the timing of the open enrollment effective date has
10 coincided with the submission of our annual rate request resulting in an increase in member
11 dissatisfaction. To mitigate this issue Blue Cross has updated the marketing materials to
12 clearly state the rates and benefits are subject to change effective April 1 and beginning in
13 2008, Blue Cross will hold open enrollment annually between May 15th and June 15th for a
14 July 1st effective date.

15 Q. Please describe how the Class DIR products are marketed.

16 A. In addition to marketing done in conjunction with open enrollment as I
17 previously described, Blue Cross informs members who are losing their group coverage or
18 their BlueCHiP for RItE Care coverage about their options to purchase a plan directly. This
19 letter provides them with the Individual Sales phone number. As dependents age off of their
20 parent's plan they are automatically issued information about their options. BCBSRI.com also
21 markets our plans for individuals and families. Browsers may select "purchase health and/or
22 dental coverage for myself or my family" from the listing of options on our home page where
23 they can access detailed information about our direct pay plans or request a sales kit.

1 In July 2007, Blue Cross launched *Direct2BlueRI*, a marketing campaign designed to
2 reach young men ages 18-34, the largest segment of the uninsured population in Rhode Island
3 (also known as the “young invincibles”). The objectives of this campaign were to (1) promote
4 the value and protection of being insured, (2) increase awareness of our affordable plans and
5 (3) connect prospective members with a health plan. This campaign consisted of:

- 6 • The development and launch of Direct2BlueRI.com a website which is
7 designed to catch the attention of young adults in order to educate them on
8 why health insurance is important and put them in touch with a representative
9 who can assist them with purchasing a plan.
- 10 • Co-sponsorship of the WBRU concert series to promote Direct2BlueRI.com
11 and to gather sales leads.
- 12 • Geo-targeted advertisements (web banners) on Yahoo.com

13 This campaign has successfully promoted the value and protection of insurance to the
14 “young invincible” market as well as created an awareness of our affordable plans. While this
15 campaign has not yet resulted in significant sales of our products to this market, it has
16 successfully laid the groundwork for future marketing efforts in the Individual Market.

17 In addition, in August 2007, we ran advertisements in the RING newspapers which
18 were designed for the parents of uninsured Rhode Islanders. The purpose of these
19 advertisements was to promote open enrollment and to inform parents of uninsured young
20 adults that there are affordable options for their children. These advertisements promoted
21 Direct2BlueRI.com as a web site that speaks simply and directly to young adults about why
22 it's important to have adequate health insurance coverage and that it can be affordable.

23 In September, our plans and money saving programs were promoted at the WalkRI
24 Health Fair. Sales Representatives were available to answer questions about coverage and
25 they distributed the *Top Five Reasons NEVER to be without Health Insurance* self mailer

1 which promotes the value and protection of health coverage and our affordable plans. It
2 encourages prospective members interested in learning more about our plans to call us, visit
3 BCBSRI.com or complete the attached postage paid business return postcard requesting a free
4 *Enrollment Kit*. This piece is also being distributed at events throughout the community by the
5 Health and Wellness Van.

6 Finally, as part of our brand campaign we ran radio spots from July 9, 2007 through
7 August 20, 2007. This spot was designed to inform Rhode Islanders that they can obtain
8 coverage directly from Blue Cross.

9 Q. Please describe how Blue Cross services existing and prospective Direct Pay
10 members?

11 A. There are two entities within Blue Cross that take questions about our Direct
12 Pay plans, Customer Service, which handles all inquiries from enrolled members and
13 Individual Sales which handles all inquiries from prospective members. Each area has a
14 unique phone number but calls are transferred between departments if a caller ends up in the
15 wrong area. This may increase a caller's wait time but is the best means of ensuring the caller
16 gets to the right source of information. The telephone number and hours of operation for each
17 unit are as follows:

18 • **Customer Service** (401) 459-5000 or 1-800-639-2227 (M-F from 8am – 8pm and
19 Saturday from 8am – 2pm)

20 • **Individual Sales** (401) 351-BLUE (2583) (M-F from 8:15am – 4:30pm)

21 Assistance is available over the telephone, on-line through our secure messaging feature on
22 BCBSRI.com or in person at 15 LaSalle Square, Providence, Rhode Island. On March 1, 2006
23 Customer Service launched a dedicated call unit for Direct Pay members with specially

1 trained representatives which is still in place. Customer Service representatives are trained to
2 help members understand how their health plan works, if/how a service is covered under their
3 plan (i.e. copay, deductible, coinsurance), and how the Premium Assistance Program works.
4 Representatives are also trained to promote the availability of the Premium Assistance
5 Program with every Direct Pay caller to ensure that our members are fully informed of the
6 option in the event they may be eligible. Finally, on rare occasions representatives are asked
7 about the costs of certain services. When this occurs, they can contact the provider's office to
8 discuss the billing codes for any proposed treatment and, with that information, help provide
9 an estimate of the member's potential out of pocket cost.

10 There are 7 representatives in Individual Sales who are responsible for helping
11 prospective members understand and enroll in an appropriate individual or family plan in
12 either the under 65 (Direct Pay) and over 65 (Medicare Advantage, Plan 65) markets as well
13 as individual Dental coverage. For those interested in enrolling in one of our Direct Pay Plans,
14 they provide callers with information about their plan options, eligibility guidelines, how to
15 enroll, and availability of the Premium Assistance Program.

16 Both the Customer Service and Individual Sales departments have regularly scheduled
17 staff meetings and training classes to handle intermittent training and educational needs. Ad
18 hoc trainings are held as needed for new initiatives. Also, each member of the telephone staff
19 is monitored on a regular basis and provided feedback to ensure that calls are handled
20 properly.

21 Blue Cross provides prospective members with detailed *Enrollment Kits*. These kits
22 provide prospective members with detailed information about their options and how to
23 become a member. Each kit contains a cover letter and the following pieces:

- 1 • *Direct to You: A Guide to Your Healthcare Choices* which outlines the benefits
2 of our direct health and dental plans, HSAs and how our plans work. In
3 addition this brochure includes a section titled “How to Become a Member.”
4 This section explains the enrollment process, eligibility guidelines and
5 encourages applicants to apply for our money saving programs (i.e. the
6 Preferred Rate and the Premium Assistance Program).
- 7 • *Choosing the Right Plan for You* illustrates how our plans work, encourages
8 prospective members to think about how they want to manage their healthcare
9 dollars and includes a worksheet designed to assist in selecting the plan which
10 best suits their needs.
- 11 • *Premium Assistance Program* brochure outlines the program details including
12 the eligibility requirements and the application process. This program is also
13 highlighted throughout the kit.
- 14 • *Rate Sheet* illustrates the Pool 1 Basic Rates and the Pool 2 Preferred Rates.
- 15 • Finally, a *Health and Dental Application*, a *Premium Assistance Program*
16 *Application* and a business reply envelope are included.

17 Prospective members may view our sales materials online, request a Sales Kit through
18 BCBSRI.com or contact Individual Sales. In July, 2007 we enhanced our suite of consumer
19 tools with the Coverage Advisor, a decision support tool powered by the market leader,
20 Subimo, LLC. This tool is an online modeling tool, available on BCBSRI.com, which
21 provides valuable information that helps members estimate out-of-pocket costs using various
22 health plan scenarios. The Coverage Advisor is designed to help existing and prospective
23 members identify the plan which best suits their needs.

1 Once a person is enrolled in our products they receive a copy of their subscriber
2 agreement which provides detailed information about their coverage. The subscriber
3 agreements are also available on BCBSRI.com to both existing and prospective members.

4 Finally, in September, 2006 Blue Cross developed a version of *Choices* magazine for
5 members of our Direct Pay plans. This provides us with the ability to address issues specific
6 to the Direct Pay market such as the availability of the Premium Assistance Program. It also
7 provides us the opportunity to address issues that impact all of our members such as their
8 responsibility to pay network providers the deductible, co-payment or coinsurance for covered
9 healthcare services.

10 Q. Please describe what Blue Cross has done to ensure that self-employed
11 individuals are aware of their plan options in the individual market and small employer
12 market.

13 A. Our sales and customer service representatives are trained to inform consumers
14 of their options in both markets as appropriate. Over the past year, Blue Cross made a
15 significant effort to ensure that self-employed individuals were aware of their options in both
16 markets. In March, Blue Cross notified all Direct Pay subscribers that if they are self-
17 employed they may be eligible for group coverage as a small employer. The *Health & Dental*
18 *Application* was revised to ask prospective members if they are self-employed. Prospective
19 members who respond yes are contacted and informed that they may also be eligible for
20 coverage as a small employer. For more information about our small employer plans they are
21 referred to our Direct Marketing Department, which handles small employer sales. Finally,
22 this information is provided in the Direct Pay benefit brochure, *Direct to You: A Guide to*
23 *Your Healthcare Choices*, and the *Rate Sheet*.

1 Q. Are any commissions paid on the sale of these products and, if so, please
2 describe the commission schedules.

3 A. BCBSRI's Individual Sales representatives are required to be state-licensed
4 insurance producers. These employees receive incentives payable on a quarterly basis at \$8
5 per direct pay application. No commission is paid to non-employee producers for Direct Pay
6 products.

7 Q. Please describe the rationale for the decision for Blue Cross to build a new
8 office building and the impact to Class DIR.

9 A. Faced with the need to make upgrades to our existing office buildings, Blue
10 Cross has concluded a comprehensive, three-year review process which resulted in our
11 decision to build a new office building to house its 1,000 employees. Our review process
12 included the examination of over 40 locations, including 17 in Providence. A detailed
13 financial analysis, conducted in collaboration with consultants from Ernst & Young's Real
14 Estate Advisory Services Group, revealed that Blue Cross can positively impact its operating
15 efficiency by consolidating its current office locations rather than incurring the expenses
16 associated with upgrading the two buildings that the company owns together with rental
17 payments at the other four buildings. Consolidating the current buildings into one home office
18 will create a number of efficiencies for Blue Cross, including:

- 19 • Building in new technologies
- 20 • Improving employee productivity
- 21 • Enhancing physical security
- 22 • Improving environmental operation, including energy efficiency. Our intention
- 23 is to earn the LEED certification for this building. The Leadership in Energy
- 24 and Environmental Design (LEED) Green Building Rating System™ is the
- 25 nationally accepted benchmark for the design, construction, and operation of
- 26 high-performance green or environmentally-friendly, buildings. LEED focuses
- 27 on five key areas of human and environmental health: sustainable site

1 development, water savings, energy efficiency, materials selection, and indoor
2 environmental quality.

3
4 The move will save approximately \$25 million over 23 years. It will not result in any
5 incremental impact on premiums or reserves over and above the costs that would have been
6 incurred if we decided to stay in our existing facilities and renovate them. Consolidating our
7 operations from six buildings to one will produce long-term operating efficiencies, which will
8 help ensure the financial stability of Blue Cross.

9 Q. Is the development cost of the new building included in the Class DIR
10 administrative costs?

11 A. Administrative expenses associated with the new building are not included in
12 this filing.

13 Q. What is the objective Blue Cross is trying to achieve with the implementation
14 of a new “core system” and how will it help Class DIR?

15 A. Blue Cross’ objective is to implement a core system that allows us to truly
16 pursue our vision, mission and strategic intent without technological barriers by allowing us
17 to:

- 18 • Respond to the competitive market environment by increasing our ability to
19 provide service and stability with agility and responsiveness.
20 • Create development savings and staffing efficiencies through simplified
21 business processes, economies of scale, and risk mitigation.
22 • Develop a platform to support future innovation and adapt to dynamic changes
23 in the industry.
24

25 Our core system includes our legacy claims processing system as well as over 70 other
26 business systems. This initiative will benefit all of our members including Class DIR in
27 several ways. The system Blue Cross has selected will improve our ability to provide

1 deductible information to members and providers, provide faster claims processing and
2 ultimately provide efficiencies through simplified business processes.

3 Q. Has Blue Cross adopted any new policies aimed at reducing operating
4 expenses?

5 A. Yes. Blue Cross is under increasing competitive pressure to provide high-
6 quality health insurance for less. To retain market share and to ensure the long-term viability
7 and success of the company we must operate at the lowest reasonable cost. In the fall of 2007,
8 the senior management staff undertook a comprehensive review of all functions and
9 eliminated seventy positions from the budget.

10 Annually we review our compensation and employee benefits package to ensure that it
11 remains competitive in our marketplace and continues to meet the needs of our employees.
12 Our goal is to provide a competitive total compensation package that attracts, motivates, and
13 retains talented employees who assist the company in achieving its mission and maximizing
14 value to its subscribers, its providers, and the community. The total compensation package
15 includes a base salary, incentives, and comprehensive benefits that constitute a major portion
16 of your overall compensation. For the past three years, executives have been contributing to
17 their health insurance premiums. Earlier this year, Blue Cross expanded employee
18 contributions on our health insurance benefit to employees in our higher pay ranges. Currently
19 22.4% of employees, including our senior management team, are contributing towards their
20 health insurance premiums. We will continue to consider further changes to the employee
21 contribution program over the coming years.

22 Finally departments are challenged to improve processes and automate activities
23 where possible. Information technology costs are routinely examined to identify opportunities

1 for savings. In short, all levels of management are working to ensure that Blue Cross operate
2 as efficiently as possible.

3 Q. Mr. John Lynch, in his Pre-Filed Testimony, has described the values utilized
4 for operating expense for Class DIR. As the policy witness for Blue Cross, can you explain
5 for us the basis of this projection?

6 A. Yes. A large portion of Class DIR operating expenses is allocated rather than
7 direct. Consequently, in order to project operating expenses on their own merit, independent
8 of increases in health care costs, the provision of operating expenses in this filing is based
9 upon expense budgets for CY2007, CY2008, and CY2009 developed internally by Blue Cross
10 for Class DIR.

11 Q. Have there been any changes or updates to the Blue Cross & Blue Shield Cost
12 Accounting Manual and the Cost Accounting System Overview since they were filed in
13 November 2006?

14 A. No, there have not been any changes or updates to these documents since they
15 were last filed in November 2006.

16 Q. How are the 2007, 2008 and 2009 Class DIR operating expense budget
17 amounts determined?

18 A. In preparation for this Class DIR filing, we developed estimated budgets for
19 Class DIR calendar years 2007, 2008, and 2009. Attached hereto as Blue Cross Exhibit 6 is a
20 document entitled "Blue Cross & Blue Shield of Rhode Island Direct Pay – Comparison of
21 CY08 Budget to CY07 Projected Actual by Natural Account." Blue Cross Exhibit 6 compares
22 by natural account (1) 2007 Projected Operating Expenses to (2) the 2008 Operating Expense
23 Budget. The CY07 Budget is based on actual reported expenditures in 2007, with an estimate

1 for the remainder of the year. The CY08 amounts reflect the budget for the calendar year. The
2 third column of Blue Cross Exhibit 6 shows the dollar increase or decrease between CY07
3 Projected and CY08 Budget. The fourth column shows the percentage increase or decrease.
4 As stated at the bottom of Blue Cross Exhibit 6, the methodology used to create the 2008
5 budget was to estimate the Class DIR operating expenses for 2007 by category and then adjust
6 for inflation and certain other factors.

7 For purposes of this filing, the calendar year 2008 budget results in a total budgeted
8 amount for Class DIR of \$5,864,482, as reflected in Column 1 of Schedule 48 of Blue Cross
9 Exhibit 2. This in turn was divided by total projected Class DIR contract months for 2008 of
10 115,584 for a projected total Class DIR operating expense per contract month figure of \$50.74
11 for calendar 2008. See Column 3 of Schedule 48 of Blue Cross Exhibit 2.

12 For 2009 attached hereto as Blue Cross Exhibit 7 is a document entitled "Blue Cross
13 & Blue Shield of Rhode Island Direct Pay – Comparison of CY09 Budget to CY08 Budget by
14 Natural Account." Exhibit 7 employs the same format as Exhibit 6, except that it compares
15 CY09 to CY08. The CY09 Budget amount of \$6,088,865 as reflected in Column 1 of
16 Schedule 48 of Blue Cross Exhibit 2 is divided by the total projected Class DIR contract
17 months for 2009 of 115,584, for a projected total Class DIR operating expense per contract
18 month figure of \$52.68. The methodology involves a projected no change in enrollment for
19 volume sensitive departments and items for 2009 over 2008.

20 Attached hereto as Blue Cross Exhibit 8 is a detailed narrative breaking down the
21 administrative expenses for the Direct Pay budget.

1 Q. Is David Fogerty, Assistant Vice President, Financial Planning available to
2 answer any additional questions with regard to cost allocation and budget methodologies that
3 anyone may have?

4 A. Yes. He is. That is within his department and that is his responsibility. He is
5 also available to answer any questions on the computation of specific allocation of
6 administrative expense items, and operating expense budgeting that I cannot answer.

7 Q. Did the Blue Cross Board of Directors authorize this filing?

8 A. Yes. The Blue Cross Board of Directors met on November 1, 2007, at which
9 time this filing was considered and discussed. The Directors' Finance Committee, which has
10 primary oversight of all rate matters, also reviewed and authorized this filing at its meeting,
11 held on September 27, 2007.

12 Q. Based upon your job responsibilities and based upon your discussions with the
13 officers and Directors of Blue Cross, as well as all information to which you have been privy
14 as a result of your duties at Blue Cross, are you familiar with the issues considered by Blue
15 Cross and its Directors with respect to the interest of Blue Cross and with respect to the public
16 interest in requesting the rates which are the subject of this rate proceeding?

17 A. Yes, I am.

18 Q. Would you please describe what Blue Cross and its Directors considered
19 regarding the interest of the public with respect to the proposed rates?

20 A. Yes. Blue Cross and its Directors have historically taken the position that
21 Direct Pay should recover not only its claims and administrative expenses, but it should
22 contribute its fair share towards corporate reserves. This over-arching long-term policy
23 remains unchanged.

1 Q. What is the most recently available contingency reserve figure for Blue Cross?

2 A. Blue Cross' overall corporate statutory reserve as of September 30, 2007 was
3 \$419 million, or 23.9% of statutory accounting principles (SAP) premium. This is equivalent
4 to 2.9 months of insured premium or 101 days of claims payments.

5 Q. What is the reserve target for Blue Cross?

6 A. Blue Cross' reserve target is a range of 25% to 35% of annual insured
7 premium. This target is a result from a review of our reserve requirements conducted by
8 Milliman USA ("Milliman"), our consulting actuaries, in early to mid 2000 (updated in 2003).
9 The purpose of the review was to determine the appropriate level of reserves in order to
10 provide Blue Cross and its subscribers with the financial stability necessary to avoid a
11 financial crisis such as that experienced by Blue Cross in 1996 through 1998 (The third such
12 loss cycle experienced by Blue Cross since 1980). The 1996 through 1998 loss cycle not only
13 endangered the future of Blue Cross as an independent, nonprofit, locally controlled Blues
14 Plan, but also caused the demise of Harvard Pilgrim Health Care of New England and Tufts in
15 Rhode Island. The Milliman study set our target range for corporate reserves at 25% to 35%
16 of annual insured premium. A second opinion on our reserve requirement was sought from the
17 actuarial consulting firm of Reden and Anders. The results of that study confirmed the
18 validity of the Milliman's reserve range. Additionally in 2006, pursuant to a legislative
19 directive, the OHIC conducted a study to evaluate the reserve requirements of Rhode Island's
20 domestically located health insurers. The report of the Lewin Group recommended a reserve
21 level ranging from 23% to 31% of insured premium for Blue Cross. In our analysis, the Lewin
22 Report validated the necessity of adequate reserves and the reasonableness of our established
23 reserve target.

1 Note that Blue Cross of Rhode Island was ranked 27th out of 36 Blue Cross Plans
2 nationally in health risk-based capital, as of June 30, 2007.

3 Q. Are reserves for Class DIR projected to be below the 25% to 35% of annual
4 premium current target range during the rate period for which rates are sought?

5 A. Assuming the requested rates are implemented as filed it is projected that at the
6 end of the rate year (March 31, 2009), Class DIR will still have a projected negative reserve
7 balance of (\$7.2) million.

8 Q. What is the reserve contribution sought in this Direct Pay rate filing?

9 A. Blue Cross is seeking a 1% contribution to reserves.

10 Q. Why is the reserve level important?

11 A. No insurer is immune from the sudden impact of natural disasters, public
12 health calamities such as an outbreak of a highly resistant “super bug” (MRSA, for example),
13 or economic downturns. In the event of an unforeseen catastrophe, reserves help to ensure that
14 an insurer remains solvent and has the ability to meet long-term contractual obligations,
15 including paying healthcare providers for services rendered to members which have not been
16 billed or processed. Reserves also allow plans to manage the risks of medical price inflation,
17 utilization pattern changes, regulatory mandates, changes in marketplace dynamics, and
18 dramatic enrollment changes. As a nonprofit organization, we do not have shareholder
19 resources to draw on; therefore our reserves also allow us to make needed investments in
20 infrastructure and development of new product lines, both of which will help strengthen our
21 long-term stability and competitiveness.

22 A sobering example of what happens when a health insurer operates with inadequate
23 reserves is when Blue Cross Blue Shield of West Virginia became insolvent and had to be

1 liquidated by that state's insurance commissioner. Thousands of patients and many healthcare
2 providers were left with unpaid claims for years afterward.

3 Q. What is Blue Cross' strategy for addressing the issue of healthcare
4 affordability?

5 A. Our strategy can be summarized by our vision and mission. It is our vision to
6 improve the quality of life of our customers and of the people of Rhode Island by improving
7 their health. Our mission is to provide our members with peace of mind and improved health
8 by representing them in their pursuit of affordable, high-quality healthcare. Toward that end
9 we will:

- 10 • Make high-quality health insurance available to a comprehensive range of
11 consumers including business owners, employees, self-pay and unemployed
12 individuals.
- 13 • Assist and support healthcare initiatives for individuals without insurance.
- 14 • Contribute to the improvement of medical and prevention services derived in
15 Rhode Island.
- 16 • Promote a coherent, integrated and efficient statewide healthcare system that
17 meets the needs of all Rhode Island residents.
- 18 • Ensure that Blue Cross is financially viable and will maintain the resources and
19 stability needed to accomplish our mission.

20 It is our intention to remain successfully independent, local, and nonprofit, and to
21 differentiate ourselves by offering competitive prices, best-in-class customer service, and
22 wellness programs that add real value to our products. Our strengths – including our
23 employees, our focus on health management, and our respectful and cooperative community

1 relationships – engender trust and respect, and result in Blue Cross being considered a value
2 of the state of Rhode Island. We take our responsibility to the community seriously. While we
3 recognize that we cannot solve the issue of healthcare affordability alone, we are committed
4 to addressing it. This commitment is illustrated by the recent decision of our Board of
5 Directors to create an Ad Hoc Affordability Sub-Committee. We will continue to develop
6 new approaches that are responsive to the ever-changing market and help create long term
7 change. Our focus is on what Blue Cross, as a community leader, can do to address the
8 multiple dimensions of affordability and help shape a more affordable Rhode Island
9 healthcare system. Our priorities are to:

- 10 • Promote primary care and health information technologies.
- 11 • Improve healthcare quality.
- 12 • Offer a choice in products and rates to meet our consumers' healthcare and
13 financial needs.

14 At Blue Cross we will continually strive to improve the quality of care that our
15 members receive and to better control healthcare costs. On a daily basis Blue Cross addresses
16 this issue through a number of our business practices. Our practices are constantly evaluated
17 to ensure that they are effective in addressing the needs of our stakeholders, including
18 members, providers, employers and regulatory officials. In addition to our ongoing business
19 practices, Blue Cross is working on several initiatives which support our corporate goals and
20 address the principles of affordability.

21 Q. Please describe these business practices and initiatives.

22 A. Our day to day operations include many business practices which address the
23 issue of affordability. Blue Cross is committed to ensuring that these practices are developed

1 based on industry best practices and standards. Our business practices are constantly
2 evaluated to ensure that they are effective in addressing the needs of our stakeholders. Our
3 business practices include ensuring that our product portfolio offers a variety of plans to meet
4 both the health and financial needs of Rhode Islanders, providing a steady stream of
5 trustworthy healthcare information to our stakeholders and being an active community leader.
6 In addition, it is our business practice to launch initiatives throughout the year which support
7 our corporate goals. Our business practices and initiatives are described throughout my
8 testimony and in the testimony of Augustine Manocchia, MD. See the Pre-Filed Testimony of
9 Augustine Manocchia, MD regarding the details of our Provider and Medical Services
10 business practices and initiatives including our Medical Management and Provider
11 Contracting practices.

12 Q. Will all affordability initiatives result in lower Direct Pay rates or lower
13 increases in rates?

14 A. Not necessarily. The public needs to understand and appreciate that some of
15 these programs which are designed to enhance affordability in the long-term may actually
16 initially result in increased administrative and claims costs to establish and implement the
17 programs. Moreover, while we believe our affordability initiatives are reasonable
18 expenditures for which we expect some return, how much, if anything will be saved in claims
19 cannot always be quantified. We do not believe it is prudent to build unknown potential
20 savings into rates. We do know, however, with certainty that to the extent affordability
21 initiatives and business practices do result in savings that those savings will roll directly into
22 future claims costs we track, thereby directly and favorably impacting rates at the appropriate
23 time.

1 Q. What is Blue Cross doing to promote a public discussion about healthcare
2 costs and affordability?

3 A. For a number of years, Blue Cross has actively communicated with a number
4 of key audiences including members, customers, and stakeholders on the issue of rising
5 healthcare costs.

6 Since 2003, we've been producing *Today's Healthcare Costs* monthly newsletter
7 which is available to the public on our Web site. The newsletter provides a high-level view of
8 a variety of issues impacting the costs of delivering healthcare in Rhode Island, as well as
9 across the nation. The newsletter is an important and effective tool in our communications
10 campaign.

11 In 2007, Blue Cross launched the *Healthymoves.org* campaign with the objective of
12 educating members and the public at large about the drivers of rising healthcare costs. This
13 campaign includes television and print ads that drive the public to the healthymoves.org Web
14 site.

15 The Web site provides educational resources, programs, and tips to help mitigate
16 healthcare costs for the individual (co-pays) while also impacting the costs within the
17 healthcare delivery system. The key objective is to engage the member/consumer to take
18 action steps (web-based wellness programs, speak to their physician, etc.) that result in
19 changes in behavior and decision-making as it relates to interacting with the healthcare
20 delivery system. We believe that by providing thought-provoking information about the
21 underlying drivers of cost within our industry along with practical steps to take, the consumer
22 will receive affordable, high quality healthcare.

1 Each year Blue Cross holds an Annual Community Meeting to encourage a proactive
2 discussion among the healthcare community and the public. This year the topic of the meeting
3 was the role of the primary care physician. This meeting featured the following panel of
4 speakers:

- 5 • Thomas Bledsoe, M.D.
- 6 • Michael Fine, M.D.
- 7 • Elizabeth Lange, M.D.
- 8 • Rajiv Kumar, founder of Shape Up Rhode Island and Brown University
9 Medical School student
- 10 • Augustine Manocchia, M.D., Chief Medical Officer, Blue Cross
- 11 • Albert Puerini, M.D.

12 In 2006, the topic was today's healthcare costs. This meeting was moderated by our
13 CEO James Purcell and featured the following panel of speakers:

- 14 • Karen Ignagni, President and CEO, America's Health Insurance Plans
- 15 • Christopher Koller, Rhode Island Health Insurance Commissioner
- 16 • Edward Quinlan, President, Hospital Association of Rhode Island
- 17 • Kathleen Fitzgerald, M.D., President and CEO, Rhode Island Medical Society
- 18 • Laura Adams, President and CEO, Rhode Island Quality Institute

19 Finally, our quarterly member magazine *Choices*, which is sent to 300,000 households
20 and businesses, also plays a critical role in educating our members about the issues underlying
21 increased healthcare costs and the role that they play in making informed healthcare
22 decisions. Each edition contains two feature articles regarding the cost of healthcare.

1 Q. What has Blue Cross done to address the consumer need for cost information?

2 A. Blue Cross is an active participant on the Office of the Health Insurance
3 Commissioner's multi-stakeholder workgroup which was established to support the state
4 mandate on transparency. We feel that for transparency initiatives to reach their full potential,
5 collaboration between insurers and providers is necessary. Quality information should be
6 transparent to the extent it can be reliably measured and price information should be
7 transparent only to the extent that it does not inadvertently increase costs for consumers. In
8 terms of cost transparency, the workgroup established a list of common outpatient medical
9 services and procedures for the purpose of presenting cost information to members via each
10 payer's respective website. Recently, Blue Cross made our Common Medical Care Costs
11 chart available on BCBSRI.com. This chart provides Blue Cross' average prices for common
12 outpatient medical services and procedures for Rhode Island based providers.

13 Blue Cross provides a wealth of information on BCBSRI.com to address the
14 consumers need for information on cost and quality as well as information about their
15 benefits, and health and wellness programs. BCBSRI.com is accredited by the Healthcare On
16 the Net Foundation. It has won recognition from industry groups including the Webby
17 Awards and the eHealthcare Leadership Awards. This website provides our members with a
18 wide array of resources to better manage their health as well as their healthcare spending
19 including:

20 *Hospital Comparison tool:* This tool allows members to locate and rank hospitals by
21 medical category and procedure/diagnosis. The member can then compare the selected
22 hospitals using a variety of criteria, including the number of patients with the same medical
23 problem the hospital has treated, mortality rates, complication rates, average length of stay

1 and average charges. Using these rankings, the tool will create a comparison report for the
2 member.

3 *Prescription Drug Co-Pay Counselor and Formulary Counselor:* These tools allow
4 members to research a drug, find out if a generic equivalent is available, see if alternative
5 medications exist, and view their co-payment level.

6 *Claims Center:* Over the past year, Blue Cross enhanced the member's claims center
7 on BCBSRI.com by adding a "How Much is My Medical Benefit Worth" section. When a
8 member logs into their BCBSRI.com account and accesses their claims information they see a
9 summary showing the difference of the total amount billed and the members total out of
10 pocket medical expense, which equals their total benefit savings for the past six or 24 months.
11 When a member is viewing their prescription drug history they will see a similar summary
12 comparing the average wholesale price (AWP) of the drug and the amount of their co-
13 payment. These summaries are designed to illustrate for members the value of their benefits
14 and to help them gain a better understanding of healthcare costs.

15 *Coverage Advisor:* In July 2007, Blue Cross launched a coverage advisor tool on
16 BCBSRI.com. This tool allows both existing and prospective members to estimate their
17 projected out of pocket medical costs using various health plan scenarios. This tool is
18 designed to assist members in selecting the plan that is right for both their health and financial
19 needs.

20 Q. In addition to what you have previously testified to, what else has Blue Cross
21 done to address affordability of health care coverage for Class DIR?

22 A. In 2006 Blue Cross instituted an innovative Direct Pay Premium Assistance
23 Program to help lower income subscribers and absorb some of the escalating costs of health

1 insurance premiums. A separate report to the OHIC discussing our experience to date with the
2 Premium Assistance Program will be submitted under separate cover contemporaneous with
3 this filing.

4 Q. Is the Premium Assistance Program part of the rates?

5 A. Blue Cross' legal position is the program is part of the charitable mission and
6 return to the community described below and not part of the Direct Pay rates. The Premium
7 Assistance Program is an added benefit that is not included in the rates charged to Direct Pay
8 subscribers. We believe this question is academic in the context of this filing, and Blue Cross'
9 legal counsel can further explain our position at the hearings if need be.

10 Q. Please describe the Direct Pay Premium Assistance Program generally.

11 A. This program is a direct outreach activity, authorized by the Blue Cross
12 Directors to help improve the affordability of healthcare coverage in Rhode Island for eligible
13 subscribers who have acted responsibly by purchasing their own Direct Pay coverage, but (1)
14 are not eligible for either employer or government sponsored or assisted healthcare coverage
15 plans (i.e., employer group coverage (other than a self-employed individual), state or federal
16 programs including, Medicare and Medicaid) and (2) have relatively low incomes from which
17 to purchase coverage.

18 Q. Why is Blue Cross offering the program?

19 A. This program is a central part of Blue Cross' overall corporate commitment to
20 performing as a successful business enterprise, and then making a "return" from that success
21 to the community. It is one of the ways in which we intend to fulfill our corporate mission to
22 "provide our members with peace of mind and improved health by representing them in their
23 pursuit of affordable high quality healthcare" (from our corporate mission statement). The

1 Premium Assistance Program focuses directly on the issue of the affordability of the
2 company's healthcare coverage for a segment of Rhode Islanders who are taking
3 responsibility for covering their healthcare needs—but who have lower incomes and do not
4 have the benefit of employer or government sponsored or supported plans available to them,
5 yet they face a significant financial burden as they receive no assistance from employers or
6 government in obtaining their health coverage.

7 Q. Is Blue Cross implementing any changes to the Direct Pay Premium Assistance
8 Program effective April 1, 2008?

9 A. Yes. The changes include:

- 10 • Use of the 2008 Federal Poverty Levels ("FPL") which are expected to be
11 released in February of 2008 as the income guidelines.
- 12 • Increasing the amount of assistance provided by 15%.

13 Q. Who is eligible for assistance?

14 A. Rhode Island residents who are enrolled or enrolling in one of our Class DIR
15 plans and meet the following requirements.

- 16 • Their annual gross household income level is below 350 % of the FPL with the
17 highest level of assistance (Level 1) to those with incomes of 200% FPL or
18 below, and a lesser level of assistance (Level 2) for those with incomes
19 between 201% and 350% of FPL);
- 20 • Eligible recipients may not be eligible for coverage under Medicare, TriCare,
21 or other federal programs nor eligible for coverage under RItE Care or other
22 state programs; and
- 23 • They must not be eligible for employer-sponsored group coverage (other than
24 self-employed individuals).

25

26 Q. How much assistance will be made available to each subscriber?

1 A. Over the course of the 12-month rating period beginning April 1, 2008, the
2 assistance is expected to provide an estimated \$984 for each eligible Direct Pay individual
3 subscriber and \$1,848 for each corresponding eligible family subscriber with an income at or
4 below 200% of the FPL. This equates to assistance ranging from 8% to 82% of total premium
5 depending on the Pool and the product selected.

6 Additionally, Direct Pay subscribers who have incomes between 201% and 350% of
7 the FPL, premium assistance over the course of the 12-month rating period is an estimated
8 \$648 for each eligible individual subscriber and \$1,224 for each eligible family subscriber
9 falling into this between 201% to 350% of FPL category. This equates to assistance ranging
10 from 5% to 54% of total premium depending on the Pool and the product selected.

11 Q. What are the federal annual income poverty levels and how does that relate to
12 Direct Pay demographics?

13 A. The 2008 Federal Poverty Levels are expected to be released in February of
14 2008. Once released, Blue Cross intends to implement the new levels on the income
15 guidelines for April 1, 2008. The 2007 Federal Poverty Levels are as follows:

Family Size	100%	200%	350%
1	\$10,210.00	\$20,420.00	\$35,735.00
2	\$13,690.00	\$27,380.00	\$47,915.00
3	\$17,170.00	\$34,340.00	\$60,095.00
4	\$20,650.00	\$41,300.00	\$72,275.00

16 It should be noted approximately 7,300 or 78% of Direct Pay contracts are for
17 individual coverage. With respect to family coverage, the average size family in Direct Pay is
18 three persons.

19 Q. How much has Blue Cross set aside for the Premium Assistance Program?

1 A. In 2006, BCBSRI set aside \$9 million to provide assistance through this
2 program. BCBSRI's goal is to generate sufficiently favorable ongoing financial results so that
3 a portion of the favorable results can continue to be available to fund worthy programs such
4 as the Direct Pay Premium Assistance Program. This money was set aside solely to provide
5 assistance to qualified Rhode Islanders and to ensure that assistance could continue to be
6 provided through this program during periods when BCBSRI's financial results may not
7 enable a dividend or "return" in the form of additional funding.

8 Q. How long will Blue Cross continue the Direct Pay Premium Assistance
9 Program?

10 A. The Direct Pay Premium Assistance Program is entering its third year and is
11 considered relatively new to Blue Cross and Rhode Island. Blue Cross will continue to study
12 it, and adapt the program as its effectiveness and Blue Cross' means of support warrant.
13 Underpinning the program's ongoing viability is the need for Blue Cross to be able to
14 implement actuarially justified, adequate premium rates – for Direct Pay, as well as all other
15 segments of business. The program will be monitored closely by Blue Cross, and future
16 funding, payment levels, and eligibility will be modified or terminated as appropriate. Based
17 on the current expenditure funding for the program is expected to last through 2012.

18 Q. What has Blue Cross done to promote the Premium Assistance Program?

19 A. Blue Cross has taken every opportunity to promote this program to every
20 existing and prospective member. It is our business practice to promote this program with
21 every caller as appropriate. This program is promoted in all of our member materials and is
22 cross promoted whenever possible. In March, April and August of this year we issued
23 mailings to all members promoting this program. Quarterly *Choices* magazine for Direct Pay

1 members includes a Premium Assistance Program advertisement and an article about the
2 program as appropriate. Finally, promotion of the program is included in several routine
3 mailings issued throughout the year. Those mailings include the welcome mailing and
4 Medical Underwriting decision letters.

5 For a detailed timeline of our program promotion see the Premium Assistance
6 Program Interim Report for April 2007 through October 2007 which was prepared in
7 accordance with the Order and Decision of the Health Insurance Commissioner in the
8 BCBSRI filing for Class DIR (HIC 06-RH-01) and submitted under separate cover
9 contemporaneous with this filing.

10 Q. Has Blue Cross done anything else to increase awareness of the Premium
11 Assistance Program and its enrollment?

12 A. Yes. Over this past year, Blue Cross has continually worked to ensure that both
13 existing and prospective members are aware of this program. We have also worked to address
14 the negative perception that some have about "Assistance Programs" and to increase
15 enrollment in the Program. Last year, Blue Cross made several changes to the program in
16 order to provide assistance to even more Rhode Islanders. As a result of this expansion,
17 enrollment in the program increased by 77% in the first month.

18 In August, Blue Cross took a different position in the promotional mailing issued to all
19 non Premium Assistance Direct Pay members. In this mailing, references to the terms
20 "Premium Assistance" were removed to address concerns that eligible members were not
21 applying for the program because of the negative perception they have towards receiving
22 financial help or assistance. The mailing encouraged members to review all of the materials
23 by informing them that they could be missing the opportunity to save a significant amount of

1 money on their monthly premiums. This mailing provided all of the information a member
2 would need to determine if they were qualified and to apply for the program.

3 Blue Cross has also evaluated concerns about the name of the program and the
4 negative perception some eligible members may have towards receiving financial assistance
5 and decided to re-launch the program under the name AccessBlue. We are currently in the
6 process of developing our launch strategy to both existing and prospective members.
7 AccessBlue will be positioned as an opportunity for members instead of an assistance
8 program.

9 Q. Please describe Blue Cross' overall approach to community "Return."

10 A. As a community based, nonprofit, charitable corporation, with a deep
11 commitment to our vision of improving the quality of life of our customers and of the people
12 of Rhode Island by improving their health, we have a Corporate Social Responsibility (CSR)
13 to make decisions only after considering their impact on our community. We have an
14 obligation to serve Rhode Islanders as a trusted healthcare partner. This means we must
15 operate with the highest ethical standards and work collaboratively to improve the state's
16 healthcare delivery system while providing our customers with peace of mind and access to
17 affordable, high-quality healthcare.

18 To achieve these goals Blue Cross has established a high CSR standard that entails
19 much more than community relations and charitable giving. We have a commitment to create
20 social and economic value for our stakeholders. Our CSR involves all executives and
21 employees from all divisions. It is a dimension of our business strategy, not an obligation,
22 which requires accountability and transparency and considers the internal and external impact
23 of our business decisions. It creates value and provides the company with opportunities to

1 distinguish and differentiate itself. The CSR goals and strategies are integrated throughout the
2 company and are tied to our success as a business.

3 Blue Cross is different from other health insurance companies in many respects. The
4 attributes that make us different—the value that Blue Cross provides to both the insured and
5 uninsured people of Rhode Island includes:

- 6 • *Access*—At Blue Cross we are working with physicians, the community health
7 centers, and through our Premium Assistance Program to ensure that Rhode
8 Island’s citizens have access to high-quality healthcare.
- 9 • *Collaboration*—Through our partnerships with other healthcare leaders, we are
10 making long-term investments in innovative programs and new technology that
11 we believe will improve quality and strengthen the healthcare system.
- 12 • *Volunteerism and Charitable Giving*—Our BlueAngel Community Outreach
13 program is a well-known source of support to many nonprofit agencies that
14 provide health services to the poor and underserved in our community.
- 15 • *Business Leadership*—With 1,000 employees, we touch many people and
16 businesses in the state, not just by providing health insurance, but by
17 purchasing goods and services, being a good employer, and helping to create a
18 healthy environment for our members and the people of Rhode Island.

19 Specific initiatives are discussed throughout this testimony and the testimony of
20 Augustine Manocchia, MD.

21 Our goals are clear and our community contributions or “returns” must be (1)
22 systematically supportive of and compatible with our corporate mission, (2) commensurate
23 with our financial means, and (3) made in a way that is sustainable over time, to the extent
24 possible. There is much we do not know and have yet to learn, and both the community’s
25 needs and the company’s circumstances will undoubtedly change over time; so our thinking
26 and actions must necessarily also grow and evolve over time. Our Charitable Contributions
27 Policy ensures that all Blue Cross donations, sponsorships, volunteer activities and in-kind

1 services are coordinated and align with business goals, maximize opportunities for corporate
2 visibility, foster long-term business relationships and are within our budget and resource
3 limitations. The major focus of our contributions is on health-related causes.

4 Our 2006 Corporate Social Mission Spending was:

	2006	Description
Direct Pay Premium Assistance Program	\$9,000,000	Committed to continue providing Direct Pay members with income at less than 350% of Federal Poverty Level a reduction to their health insurance premiums.
Corporate Community Contributions	\$1,833,571	Provides monetary gifts to charitable organizations. Donations of \$1.5mm have been made in the last two years to the RI Community Foundation.
Electronic Health Records and EHR-RI	\$1,431,500	Provide accurate electronic records of a patient's medical history.
RI Quality Institute	\$400,000	Help transform quality healthcare in RI through various studies (i.e. emergency room, etc.)
SHAPE	\$25,000	Evaluated the need and demand for healthcare services and helped determine ways to efficiently service those needs. A total of \$12.0mm was spent on this initiative from 2001-2006.
ICU Collaborative	\$262,250	Focusing on preventing pneumonia associated with ventilators & reducing blood stream infections associated with catheters.
Health & Wellness Van Visits	\$184,753	Provide material and expertise on preventive health issues (i.e., back care, diabetes, heart disease, etc.) throughout the state.
Employee Fundraising Contributions	\$187,173	Employees providing monetary gifts to charitable organizations.
Employee Volunteer Time Value	\$ 91,120	Employees volunteering to benefit people served by various nonprofit organizations (i.e., Rebuilding Together, Rhode Island Community Food Bank, American Heart Association, etc.). The total value is based on 5051 hours at \$18.04 / hour as per the Independent Sector).
Rhode Island Health Literacy Project	\$83,715	Heighten awareness of health literacy issues so that all Rhode Islanders better communicate and understand health information, treatment options and self-care instructions.
RI Quality Partners	\$50,000	Abstracts medical record data for clinical improvement.
Value of In-Kind Contributions	\$53,333	Donation of computers and/or furniture to charitable organizations.
Total	\$13,633,207	

5

6 Q. How do Blue Cross' mission and its finances interact?

7 A. During the past several years, a crucial focus for the company has been on
8 ensuring our future financial viability. Without sufficient reserves and operating stability, we
9 simply cannot carry out our mission. Ongoing financial success, therefore, becomes both (1) a
10 measure of our performance as a well run, competitive business enterprise, and (2) the source

1 of our financial means to undertake core elements of our mission to support Rhode Islanders
2 in their pursuit of affordable high quality healthcare.

3 To pursue our mission as an independent, nonprofit health plan in the State, Blue
4 Cross has identified four cornerstones for our operating foundation. They are:

- 5 • Attractive, affordable, high-quality products and service
- 6 • Strong reserves
- 7 • Ongoing operating gains
- 8 • Structured “return” to the community

9 Each of these cornerstones is important in its own right. More importantly, however,
10 the four cornerstones must all work together to forge a sound foundation for the company. No
11 one of them can be ignored or sacrificed; and no one of them can be pursued unilaterally
12 without full regard for the others. An integral part of our mission is to make high-quality
13 health insurance available to a comprehensive range of consumers including business owners,
14 employees, self-employed and unemployed individuals. Since we operate in a market
15 environment, we must continually offer products with competitive designs and features, at
16 appropriate prices, supported by strong customer service. Our filing for Direct Pay
17 exemplifies the importance placed by Blue Cross on maintaining up-to-date, cost effective,
18 and affordable products for our various segments of business. Strong corporate reserves
19 maintained by Blue Cross enable us to guarantee protection and provide peace of mind to our
20 subscribers. Reserves provide the company with the capitalization that is essential in order to
21 safely assume the risks associated with offering health insurance coverage, as well as funds to
22 re-invest in infrastructure for the future and to enable responses to changing customer or
23 market demands. Ongoing operating gains are achieved by simultaneously meeting customer
24 needs and expectations, charging appropriate but competitive prices, and managing the
25 company effectively, especially with regard to provider contracting and management of care

1 and internal business operations. Successfully achieving all of these outcomes simultaneously
2 is a complex and difficult task, but an essential one. Ongoing operating gains are necessary in
3 order to maintain our reserves (which must grow along with the dollar volume of our business
4 in force), enable investment in the company for the future (e.g., new products, infrastructure),
5 to help ensure the adequate funding and effectiveness of our healthcare systems in Rhode
6 Island, and provide for any “return” to the community that we might make, including outreach
7 efforts to help address affordability.

8 Our structured approach to making “returns” to the community is important to help
9 ensure the effectiveness of the contributions involved, within the context of appropriateness,
10 financial prudence, and sustainability. The contributions we make as a company take many
11 forms – from corporate leadership and participation in broad-based local healthcare
12 initiatives, to local employment, to member healthcare and wellness promotion, to monetary
13 support. All of these entail the use of resources, and all must be organized and managed in
14 order to be most effective. This is a principal reason why we have structured our proposed
15 Premium Assistance Program as we have. It involves discrete, identified amounts of financial
16 support to help address directly premium rate affordability. It is focused on those subscribers
17 who have lower incomes but who do not have the benefit of support from employer or
18 governmental programs, i.e., those who we believe need assistance with the affordability of
19 their premiums the most. With adequate direct pay rates, and proper financial management of
20 both the program and Blue Cross overall, the Direct Pay Premium Assistance Program should
21 be sustainable over time.

22 Q. How does the overall community “return” concept relate to this Direct Pay
23 filing?

1 A. As discussed earlier, any application of funds earmarked for “return” to the
2 community must be consistent with our corporate mission and must be an identified
3 component of our overall expenditure plan for such funds. Financial prudence would also
4 dictate that such funds be applied in a manner that is manageable vis-à-vis determinability of
5 the amount of funds to be expended in total and sustainability over time.

6 We have identified and adopted two fundamental enabling principles to help guide in
7 continuing the Premium Assistance Program. These principles are directly related to the goals
8 just enumerated for our community contributions and to the four cornerstones of our operating
9 foundation, as described earlier. The two principles are (1) ongoing financial success is a
10 prerequisite to making a “return” to the community and (2) a structured overall approach to
11 providing a “return” is necessary to ensure focus, prudence, and sustainability

12 The first principle is the fundamental fact that “returns” to the community are possible
13 only if the company is both adequately capitalized (i.e., sufficient reserves) and generates
14 ongoing operating gains. Reserve targets must be met and appropriate re-investment made in
15 the company for our future success, before a “return” is prudent. Funding for a “return” must
16 then actually come out of a portion of ongoing gains – so long as operating stability has been
17 achieved and meaningful progress has been made in moving systematically toward an optimal
18 level of reserves. Such gains enabling a “return” will only be available if premium rates are
19 first sufficient to cover operating costs, identified needs for re-investment, and planned
20 accumulation of reserves. This means, in brief, that actuarially sound rates must be
21 maintained continuously for all segments of business.

1 The second enabling principle to help guide the Plan in addressing “return” to
2 the community is the need for a systematic, structured overall approach. This second principle
3 includes for example, such components as:

- 4 • *Reserve accumulation plan* – Establishing and pursuing with discipline a
5 multi-year reserve accumulation plan for the company (part of the business
6 planning process).
- 7 • *Target “return”* – Identifying the amount to be set aside and earmarked for
8 “return” to the community.
- 9 • *Sustainable approach to expenditures* – Expending earmarked funds gradually
10 so that company efforts and funding can be sustained over time (even with
11 intervening poor financial years).
- 12 • *Fiduciary responsibility* – Assuring that Board of Directors’ authorization and
13 oversight occur in connection with the earmarking or expenditure of funds for
14 “return,” since this is a use of corporate assets for other than normal operating
15 expense purposes.
- 16 • *Expenditure plan and monitoring* – Maintaining a multi-year plan for
17 expending funds set aside for “return” to the community, consistent with our
18 corporate mission and with financial prudence, and then monitoring its
19 effectiveness closely.
- 20 • *Conforming financial reporting* – Allocating “return” funds when they are so
21 earmarked, and tracking subsequent grants or other expenditures against such
22 funds.

23 Blue Cross has concluded that continuing the Direct Pay Premium Assistance Program
24 satisfies these criteria, is mission based, and is a high priority initiative for helping
25 Rhode Islanders in their pursuit of affordable high quality healthcare.